

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NOS. 1999-110-G, 98-006-G & 1999-007-G - ORDER NO. 1999-265

APRIL 12, 1999

IN RE: Docket No. 1999-110-G - Annual Review of)	ORDER GRANTING
Purchased Gas Adjustment (PGA) and)	RECONSIDERATION
Purchasing Practices and Procedures of South)	
Carolina Pipeline Corporation and Evaluation)	
of Staff Report related to South Carolina)	
Pipeline Corporation and South Carolina)	
Electric & Gas per Order under Docket No.)	
98-006-G.)	
)	
AND)	
)	
Docket No. 98-006-G – Annual Review of)	
Purchased Gas Adjustments (PGA) and Gas)	
Purchasing Policies of South Carolina Electric)	
& Gas Company.)	
)	
AND)	
)	
Docket No. 1999-007-G – Annual Review of)	
Purchased Gas Adjustment and Gas)	
Purchasing Policies of South Carolina)	
Pipeline Corporation.)	
)	

This matter comes before the Public Service Commission of South Carolina (the Commission) on two Petitions for Reconsideration of our Order No. 1999-164, from South Carolina Pipeline Corporation (SCPC or Pipeline) and South Carolina Electric & Gas Company (SCE&G). In addition, Pipeline has filed a “Motion to Define Issues.” Because of the reasoning stated below, the Petitions are hereby granted.

We will discuss the Petitions separately. A bit of history is required to explain our reasoning in this matter. In Order No. 87-1122, in Docket No. 87-530-G, this Commission determined that SCPC's Purchased Gas Adjustment (PGA) and gas purchasing policies should be reviewed on an annual basis. Since then, the Commission has conducted annual PGA reviews for SCPC, at which it has considered the prudence of SCPC's gas purchasing practices and policies during the previous year, SCPC's adherence to the approved gas tariff during the review period, and any prospective changes to the tariff as it relates to the PGA. This Commission opened Docket No. 1999-007-G for the purpose of conducting SCPC's annual review. A hearing was originally scheduled to begin on April 22, 1999.

On February 25, 1999, the Commission Staff released a Staff Report. In the Report, the Staff concluded that it could not quantify any benefits or costs of SCE&G purchasing its own commodity gas; concluded that SCPC could feasibly file for a firm transportation tariff, performed a study that would treat SCE&G's industrial revenues in a manner similar to the method adopted by this Commission for United Cities Gas Company; and considered the effect of treating SCE&G's and SCPC's gas operations in a combined manner for ratemaking purposes. The Staff Report showed that the rates of return for both SCE&G and SCPC are within or below their authorized range of rates of return. With regard to SCPC, according to that Company, the Staff Report contained information that showed that SCPC's rate of return on equity was 15.14% based on Pipeline's capital structure, without the acquisition adjustment, and 11.74% with the acquisition adjustment, both within or below SCPC's authorized rate of return on equity.

On March 3, 1999, we issued Order No. 1999-164, in which we decided to evaluate the Staff Report during Pipeline's PGA review. The hearing scheduled in Docket No. 1999-007-G for April 1999 was continued, and a hearing was scheduled to begin on August 2, 1999. Docket No. 1999-110-G was subsequently opened to evaluate the Staff Report, and was combined with Docket No. 1999-007-G.

SCPC states that, under the Commission's Rules of Practice and Procedure, two or more formal proceedings may be consolidated only if they involve a similar question of law or fact and if the rights of the parties and the public interest will not be prejudiced. See Regulation 103-864. SCPC further states that, while some of the issues raised by the Staff Report are appropriate for inclusion in SCPC's PGA case, other issues, particularly those concerning establishment of a new firm transportation rate, rate of return, and related accounting adjustments are unrelated to the issues to be addressed in such a case. SCPC notes that consideration of the portions of the Staff's Report relating to methodology for allocating gas costs and credits and its proposals to modify the Industrial Sales Program (ISP) are pertinent to the PGA review, and may be discussed in the PGA proceeding in any event. Further, SCPC states that it is unnecessary to combine the Commission evaluation of the Staff Report with SCPC's PGA proceeding in order to consider these issues raised by the Staff.

Pipeline further notes that consideration of earnings issues is inappropriate in the context of SCPC's PGA review. Further, according to SCPC, issues related to its rate of return, capital structure, accounting adjustments, and other ratemaking issues are appropriate for review and evaluation in SCPC's next general rate case. SCPC notes that

there is no reason to address these issues now, since Pipeline's rate of return is shown to be at or within the range of rates of return granted by this Commission. Further, since Pipeline's rate of return was established less than a year ago, SCPC notes that there is no need to revisit that issue now. Nor, according to SCPC, is the PGA proceeding the proper place to consider the concept of a new firm transportation tariff. Pipeline believes that, because of its effect on other rates, that the Company's next general rate case would be a more appropriate forum for consideration of a new tariff.

In summary, Pipeline states its belief that a combined hearing with both PGA and unrelated ratemaking issues will unnecessarily confuse and complicate what should be a straightforward and customary annual review of SCPC's PGA by introducing issues that should be addressed at a later time in a separate proceeding. Pipeline further notes that a combined proceeding will result in a violation of the Commission's Rule 103-864 and other South Carolina law. Pipeline therefore requests that we reconsider Order No. 1999-164 and limit Docket No. 1999-007-G to issues related to SCPC's gas purchasing practices, adherence to the PGA, and proposals for prospective modifications to the PGA.

SCE&G's Petition for Reconsideration of Order No. 1999-164 is similar to Pipeline's in content. It recounts that Commission Order No. 87-898, issued August 14, 1987, requires an annual review of the purchased gas adjustments and gas purchasing policies of SCE&G. The most recent annual review of SCE&G's gas purchasing practices was conducted in Docket No. 98-006-G. We issued Order No. 98-835 dated October 28, 1998 approving the cost of gas and the environmental clean-up factor to be included in SCE&G's rates beginning with the first billing cycle in November 1998. On

November 6, 1998, the Commission issued Order No. 98-879 directing the Commission Staff to conduct an investigation concerning a number of issues. The Staff submitted its report to the Commission. Staff stated in the report that it was doubtful that SCE&G could purchase natural gas at a commodity rate lower than that purchased by SCPC, and that questions about SCPC's purchasing gas on behalf of SCE&G would be eliminated by addressing concerns related to the allocation of certain gas costs by SCPC. Staff commented on various other issues in its report.

In Order No. 1999-164, dated March 3, 1999, we determined that SCE&G's purchasing policies and practices were prudent; that SCE&G's gas costs were prudent and properly recovered in accordance with approved tariffs and rate schedules, that SCE&G's ISPR program as well as its currently approved cost of gas should continue, and that Docket No. 98-006-G should be closed. Order 1999-164 further decided that a new docket would be established in which a full evidentiary hearing would be held on the issues raised by the Commission in Order No. 98-879 and addressed by the Commission Staff in its February Report to the Commission. The hearing for the new docket was to be combined with the annual hearing on SCPC's gas purchasing practices in Docket No. 1999-007-G. SCE&G also points to our Regulation 103-864 which allows consolidation of proceedings if they involve a similar question of law or fact. SCE&G submits that all issues involving the prudence of its gas purchasing policies and practices have been examined and determined by the Commission in Docket No. 98-006-G. SCE&G also echoes the statements of Pipeline when it says that certain matters such as those

concerning rate of return on equity are inappropriate for a PGA case, and unnecessarily complicate that PGA case.

Accordingly, SCE&G asks this Commission to reconsider our Order No. 1999-164 to the extent that it combines for hearing with SCPC's PGA clause those issues in Staff's report relating to rate of return on equity, treatment of SCE&G's industrial revenues for ratemaking purposes, and consolidation of SCE&G's gas operations with those of SCPC for ratemaking purposes, and defer issues related to rate of return, capital structure, treatment of industrial revenue, and other ratemaking issues until a general rate case.

After due consideration, we must agree with Pipeline and SCE&G. We agree with the statement that mixing consideration of "rate case" issues such as those described by both companies with PGA issues makes things unnecessarily confusing and complicated, although we stop short of saying that this combination would violate the Regulation and South Carolina law. We do think that the "rate" matters mentioned would unnecessarily complicate what would otherwise be a straightforward Pipeline PGA proceeding. Therefore, we hold that a hearing on the "rate" matters mentioned shall be deferred until the next general rate case for either Pipeline or SCE&G. The August hearing shall only consider the matters normally considered in a Pipeline PGA proceeding. We realize that this is a modification of our prior position, but we believe that this modification is appropriate, considering the points raised by both South Carolina Pipeline Corporation and South Carolina Electric & Gas Company in their Petitions.

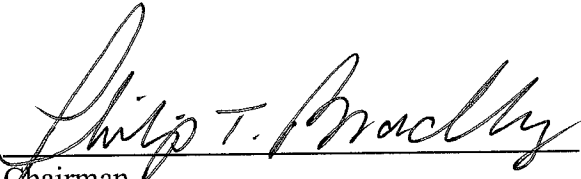
We therefore grant the Petitions filed by Pipeline and SCE&G. Further, accordingly, Docket No. 1999-110-G shall be closed.

However, Staff is instructed to monitor the rate of return being earned by South Carolina Electric & Gas Company on its firm and non-firm gas sales and report this information to the Commission on at least a quarterly basis.

We also hold that the hearing currently scheduled to begin on Monday, August 2, 1999 at 10:00 A.M. be continued until **Wednesday August 4, 1999 at 10:30 A.M.** in the offices of the Commission. Further, we hereby reverse our prior Order concerning the filing of pretrial briefs, i.e. no such pretrial briefs need be filed. We must also modify our previously designated dates for the prefilings of testimony and exhibits by the parties to this case. South Carolina Pipeline Corporation shall prefile its testimony and exhibits with this Commission on or before **Wednesday, June 16, 1999**. All other parties, including intervenors and/or Commission Staff shall prefile testimony and exhibits on or before **Wednesday, July 21, 1999**. The parties are reminded that the Commission Regulations require service of all testimony and exhibits on all parties. All parties are reminded that all witnesses must be present during any hearing in this matter at the call of the Chairman, or the Commission may decline to allow the witnesses' testimony to be read into the record of the proceeding, and/or may decline to allow the witnesses' exhibits to be entered into the evidence of the case. Any party requesting modification of this schedule must file a request for such modification with this Commission.

This Order shall remain in full force and effect until further Order of the
Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)